Cleco Power LLC

CLECO

2018 FEB 16 PM 4: 15

LA [illegible]
COMMISS[illegible]

[illegible]
2030 Donahue Ferry Road
PO Box 5000
Pineville, LA 71361-5000
318 484 7637 Tel
318 308 7637 Cell
318 484 [illegible] Fax
[illegible]

J. Robert Cleghorn
Vice President
Regulatory Strategy

February 15, 2018

Brandon Frey, Interim - Executive Secretary
Records and Recording Division
Louisiana Public Service Commission
Galvez Building, 12th Floor
602 North Fifth Street
Baton Rouge, LA 70802

Re : Report of savings for ratepayers as a result of the Tax Cuts and Jobs Act of 2017 as ordered by the Commission at the December 2017 B&E.

Dear Mr. Frey:

Enclosed is Cleco Power's response to the Commissioner's directive to provide a report of the Tax Cuts and Jobs Act of 2017.

Should you have any questions, or require additional information, please do not hesitate to contact me at 318-484-7637.

Sincerely,

Robert Cleghorn

Robert Cleghorn
VP – Regulatory Strategy

ROUTE TO		ROUTE FROM
DEPT. Legal	DATE 2/19	DEPT.________
DEPT. Records	DATE________	DEPT.________
DEPT.________	DATE________	DEPT.________
DEPT.________	DATE________	DEPT.________

CLECO

Tax Cuts and Jobs Act of 2017

The Tax Cuts and Jobs Act of 2017 ("TCJA") was signed into law on December 22, 2017. Among other things, the TCJA reduced the top statutory corporate income tax rate from 35% to 21%, generally allowed for 100% bonus depreciation for new and used equipment purchased after September 27, 2017, with an exception for property predominately used in certain rate-regulated trades or businesses, generally restricted net interest deductions to 30% of adjusted taxable earnings before interest, tax depreciation and amortization, with an exception for interest expense properly allocable to certain rate-regulated trades or businesses, and repealed the corporate alternative minimum tax.

Cleco Power operates as a fully integrated entity and therefore no distinction is made between retail and wholesale for GAAP purposes. For ratemaking purposes, Cleco Power allocates regulatory assets and liabilities (as well as other assets, liabilities, and expenses) between retail and wholesale, absent a rate order that mandates that only the retail portion of these assets be recorded (e.g., Hurricanes Katrina and Rita storm damage, Production O&M deferral, Biomass).

As a result of the change in tax rates, Cleco Power is accruing a reserve for the difference in the cumulative federal and state income tax rate of 38% prior to the effective date of the TCJA, versus the 26% cumulative federal and state rate effective after the TCJA, which is being collected from customers as of January 2018 and will continue to be collected through June 2018. Cleco Power will recommend refunding this amount to customers on their September 2018 bills for their July 2018 usage. This proposed refund will be in addition to the 2017 FRP

Monitoring Report refunds. Cleco Power also intends to file for approval by the LPSC a rate change effective July 1, 2018 to incorporate the tax changes in base rates.

Accumulated deferred income tax assets and liabilities ("ADIT") is recorded at 100%, and is included as a reduction to rate base. At December 31, 2017, Cleco Power reduced the net ADIT liability due to the reduction in the federal corporate income tax rate from 35% to 21%. In accordance with regulatory ratemaking practices, a regulatory liability was recognized to represent the reduction of the ADIT liability. The establishment of the regulatory liability eliminates rate base from increasing due to the ADIT adjustments and maintains customer rates, which prior to TCJA included the customer benefit of the ADIT liability (now as a regulatory liability). A large portion of this liability is "protected" by the normalization rules and will be amortized over the life of the asset (approximately 30 years). If Cleco Power were to accelerate the giveback of the protected portion, a violation of the normalization rules would occur, which would require that additional adjustments be made, resulting in increasing rate base and customer rates. Cleco Power recognizes that the unprotected portion of the regulatory liability is a reduction to rate base and customer rates, and will propose that this portion be amortized over the life of the asset as well.

Finally, each utility should individually file with the LPSC its proposed recommendations to address the effects of the TCJA based on utility-specific facts and circumstances, considering the interests of the affected stakeholders.